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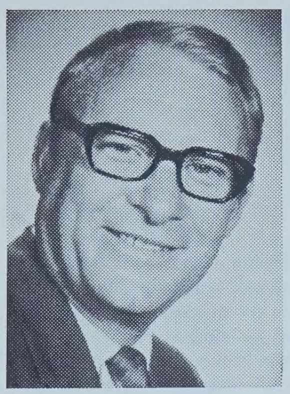
AUSTIN
INVESTMENT CORPORATION LTD.

1971
ANNUAL REPORT



A Report from Your Managing Director

The 1971 fiscal year was the most profitable in this Company's fifteen years of existence. The consolidated net income before extraordinary items was $58,191 or 5.8 cents per share. The net income for the year, including the net gain of $35,624 from the sale of our 85% equity in A. E. Austin & Co. Ltd., was $93,815 or 9.3 cents per share. These figures compare with a net income in 1970, when there were no extraordinary items, of $26,903 or 2.7 cents per share, adjusted from the $29,987 originally reported, by an additional tax liability for that year.

A quick calculation of our price to earnings ratio shows that at the date of this report our shares are trading at only about eight times our 1971 normal earnings of 5.8 cents per share, and we project another substantial increase in these earnings for the current fiscal year. The net book value per share of our shareholders' equity on a consolidated basis is also in excess of our trading price. The Directors are confident that these factors will be recognized by market investors and that an improvement of our market price will result.

It may be perplexing to you that the extraordinary profit from the sale of our investment in A. E. Austin & Co. Ltd. is only $35,624 when we received an intial cash payment of $127,500. The calculation of this gain is explained in Note 9 to the financial statements. I also point out that further proceeds (which would be all profit) may be received from this sale in the future and other benefits are presently being enjoyed by your Company, as outlined in the first paragraph of the note. In making the decision to sell this subsidiary, I feel we made a choice which will protect the future growth and strength of this Company. I say this in view of the current turmoil in the Real Estate brokerage industry in the Greater Vancouver area, and the spiralling costs of operating a business within that industry.

During the last two years it has become obvious to your management that our involvement in Shakey's Pizza Parlors will produce substantial returns in the future. Since they have only been established in the Vancouver area since 1968, the potential of these units is just beginning to materialize. They had a net income before tax of $45,349 for the 1971 fiscal year and we project this figure will be almost $100,000 in 1972. We have also been concerned about having a substantial cash investment in Bellvan Pizza Parlors Ltd., yet only a 40% minority equity position.

We therefore commenced negotiations with the American shareholders and as of October 1, 1971 we acquired the remaining 60% equity in Bellvan, making it a wholly-owned subsidiary of this Company. This acquisition will diversify our base of operations and thereby make our Company less susceptible to fluctuations in the real estate market.

Bellvan presently owns the land, buildings, franchises and operations for the three Shakey's Pizza Parlors operating in New Westminster, Coquitlam and Richmond. The acquisition of these assets will increase our consolidated assets by $650,000. We will open a fourth Parlor this spring in leased premises at Denman and Haro in the West End apartment area, which has one of the highest population densities of any area in North America. In order to protect our franchise rights within the Lower Mainland - Vancouver Island area, we are presently working with Shakey's Inc. to set out a schedule of expansion over the next few years. This schedule will probably include a fifth Parlor by the end of 1972 and an eventual total of at least ten locations within the area mentioned.

Despite our heavy involvement in the restaurant business, we will be maintaining our basic roots in the real estate development and mortgaging industry. We will continue to increase our mortgage portfolio and in periods of good real estate markets we will continue our residential construction and offer builder financing.

I am extremely optimistic about our 1972 fiscal year. We have already completed some very profitable mortgage transactions and the Pizza Parlors are establishing new sales records. Our residential construction is also selling well due to the lower mortgage interest rates and the improved real estate market. The Directors look forward to a great future for the Austin Group.

February 7, 1972.
Vancouver, B.C.

On behalf of the Board of Directors
RONALD R. HUNTER, Managing Director

AUSTIN INVESTMENT CORPORATION LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
September 30, 1971 and 1970

ASSETS

	1971	1970
CURRENT ASSETS		
Cash	$ 1,802	$ 92
Commissions and other accounts receivable	520	110,166
Notes and loans receivable	393	37,326
Construction financing to builders	97,873	9,166
Construction financing to Fraserview Holdings Ltd.	—	10,524
Inventory of trade properties, at cost	—	73,431
Inventory of lots and houses, at cost	175,368	49,588
Prepaid expenses and sundry receivables	6,235	7,770
Current portion of agreements and mortgages receivable	51,000	23,000
	333,191	321,063
AGREEMENTS AND MORTGAGES RECEIVABLE (Note 2)	516,669	389,875
Less: Current portion	51,000	23,000
	465,669	366,875
DEFERRED INCOME TAXES	—	1,237
INVESTMENTS AND ADVANCES (Note 3)	200,721	185,368
FIXED ASSETS, net (Note 4)	5,293	51,728
INCORPORATION AND ORGANIZATION EXPENSES	11,788	11,788
	$ 1,016,662	$ 938,059

On behalf of the Board

"R. R. HUNTER", Director

"R. L. SAUNDERS", Director

AUSTIN INVESTMENT CORPORATION LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
September 30, 1971 and 1970

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank overdraft	$ —	$ 34,948
Bank loans—secured (Note 5)	185,000	43,000
Accounts payable and accrued liabilities	10,616	23,924
Commissions payable to salesmen	—	63,846
Mortgages payable on houses held for resale	13,930	38,891
Corporation income taxes payable	4,400	8,933
Deferred real estate commission income	—	10,343
Current portion of long-term liabilities	13,100	4,269
	227,046	228,154
LONG-TERM LIABILITIES (Note 6)	172,537	170,793
DEFERRED INCOME (Note 7)	44,805	54,205
MINORITY INTEREST IN SUBSIDIARY COMPANY	—	11,574
DEFERRED INCOME TAXES (Note 8)	3,367	—
SHAREHOLDERS' EQUITY		
Share Capital:		
250,000 7% cumulative redeemable preference shares of $1.00 each par value authorized, of which 17,500 are issued	17,500	17,500
3,000,000 common shares of no par value authorized, of which 1,005,000 are issued	313,613	313,613
	331,113	331,113
Retained Earnings:		
Opening balance, as previously stated	148,288	119,617
Adjustment of prior year's income	—	(91)
Increase in prior year's income taxes (Note 10)	(3,084)	—
Opening balance, restated	145,204	119,526
Net income	93,815	26,903
	239,019	146,429
Dividends paid on preference shares	(1,225)	(1,225)
	237,794	145,204
Excess of cost over book value of shares of subsidiary company	—	(2,984)
	568,907	473,333
	$ 1,016,662	$ 938,059

AUSTIN INVESTMENT CORPORATION LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENT
For the Years Ended September 30, 1971 and 1970

	1971	1970
REVENUE		
Interest earned	$ 63,273	$ 56,698
Mortgage discounts earned	14,631	5,282
Construction revenue	72,068	202,581
Management fees	6,000	—
From the operations of A. E. Austin & Co. Ltd., net	1,580	7,730
Other revenue	2,624	1,721
	160,176	274,012
EXPENSES		
Construction costs	68,316	188,653
Depreciation	2,710	599
Interest and bank charges	18,546	22,542
Management salary	14,973	2,348
Overhead charges — A. E. Austin & Co. Ltd.	7,910	14,055
Other administrative and overhead charges	8,449	15,098
Printing, stationery and office supplies	1,212	1,472
Travel and entertainment	3,846	1,212
	125,962	245,979
NET OPERATING INCOME BEFORE INCOME TAXES	34,214	28,033
Income taxes — current (Note 10)	5,185	5,904
— deferred (Note 8)	3,367	—
	8,552	5,904
NET OPERATING INCOME BEFORE THE FOLLOWING	25,662	22,129
Share of net income of non-subsidiary companies (Note 3)	15,529	4,774
Dividend from A. E. Austin & Co. Ltd.	17,000	—
	32,529	4,774
NET INCOME BEFORE EXTRAORDINARY ITEM	58,191	26,903
Gain on sale of A. E. Austin & Co. Ltd., net (Note 9)	35,624	—
NET INCOME	$ 93,815	$ 26,903
BASIC EARNINGS PER SHARE		
Income before extraordinary item	5.8c	2.7c
Net income	9.3c	2.7c

AUSTIN INVESTMENT CORPORATION LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
For the Years Ended September 30, 1971 and 1970

		1971	1970
SOURCE OF FUNDS			
Net income for the year		$ 93,815	$ 26,903
Add: Minority interest in earnings of subsidiary		—	1,364
Depreciation and amortization		2,710	11,159
Deferred income taxes		3,367	942
		99,892	40,368
Deduct: Gain on sale of A. E. Austin & Co. Ltd., net		35,624	—
Mortgage discounts earned		14,631	5,282
Share of net income of non-subsidiary companies		15,529	4,774
		65,784	10,056
Funds provided by operations		34,108	30,312
Principal payments received on agreements and mortgages		122,647	82,329
Recovery of investment in Fraserview Holdings Ltd.		2,400	—
Recovery of investment in Park Ridge Towers Ltd.		1,376	1,745
Proceeds of sale of A. E. Austin & Co. Ltd., net		107,182	—
Increase in loans and mortgages payable, net		18,609	6,343
Share capital — issued for cash		—	5,000
Deposits on two-way radios		—	1,450
		286,322	127,179
APPLICATION OF FUNDS			
Purchase of agreements and mortgages		216,209	102,896
Advances to Bellvan Pizza Parlors Ltd.		3,600	27,252
Purchase of additional shares of A. E. Austin & Co. Ltd.		—	200
Purchase of fixed assets — net of disposal proceeds		7,823	15,391
Recapitalization and reorganization expenditures		—	2,000
Preferred share dividends		1,225	1,225
Current portion of debentures payable		9,900	—
Repayment of shareholder's advances		—	33,823
		238,757	182,787
INCREASE (DECREASE) IN WORKING CAPITAL		47,565	(55,608)
WORKING CAPITAL, BEGINNING OF YEAR	92,909		
Less: A: E: Austin & Co. Ltd. portion	34,329	58,580	148,517
WORKING CAPITAL, END OF YEAR		$ 106,145	$ 92,909

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1971

1. **Basis of Consolidation**

The consolidated financial statements include the accounts of subsidiaries, ASK Development Corporation Ltd. and Mariposa Holdings Ltd. A former subsidiary, A. E. Austin & Co. Ltd. was sold during the year (see Note 9) and accordingly its assets and liabilities are not included in the current year's balance sheet.

2. **Agreements and Mortgages Receivable**

The agreements and mortgages receivable are secured by specific properties and are subject to prior charges of $40,232.

3. **Investments In and Advances to Non-Subsidiaries**

	1971	1970
(a) Bellvan Pizza Parlors Ltd. (40% equity) (see (e) below)		
Investment — 160,000 common shares plus 40% of net income since acquisition	$ 95,397	$ 81,705
Advances—assigned to Industrial Development Bank until Bellvan's loan from them paid	85,652	82,052
	181,049	163,757
(b) Fraserview Holdings Ltd. (25% equity)		
Investment — 3 Class A and 25 Class B common shares plus 25% of net income since acquisition (net of dividends received)	267	2,667
(Advances shown separately as current asset)		
	267	2,667
(c) Park Ridge Towers Ltd. (25% equity)		
Investment — 2 common shares plus 25% of net income since acquisition (net of dividends received)	19,405	18,944
(Advances shown separately as current liability)		
	19,405	18,944
	$ 200,721	$ 185,368

(d) Included in consolidated net income are the following proportionate amounts of the net earnings of these companies:

	1971	1970
Bellvan Pizza Parlors Ltd.	$ 13,692	$ 1,505
Fraserview Holdings Ltd.	—	1,430
Park Ridge Towers Ltd.	1,837	1,839
	$ 15,529	$ 4,774

(e) Austin Investment Corporation Limited has, as of October 1, 1971, acquired the remaining 60% of Bellvan Pizza Parlors Ltd., making it a wholly-owned subsidiary. The purchase price was $238,500 with $120,000 in cash and the remaining $118,500 in 71 monthly instalments, without interest.

4. **Fixed Assets**

At September 30, 1971 this account consisted of:

Automobile	$ 7,561
Less: Accumulated depreciation	2,268
	$ 5,293

The comparative amount for September 30, 1970 also included the fixed assets of A. E. Austin & Co. Ltd., which has been sold (Note 9).

5. **Bank Loans**

The bank loans of $185,000 are secured by the hypothecation of a number of agreements and mortgages receivable.

6. **Long-Term Liabilities**

	1971	1970
Mortgages payable — secured (Note 1)	$ 40,232	$ 43,130
Debentures payable — secured by a floating charge on all assets of the company with interest at 7%, payable semi-annually	56,500	56,500
Loans and notes payable — unsecured:		
R. S. Hunter, 8½% interest, payable monthly	31,200	31,200
R. R. Hunter, 8% interest, payable semi-annually	4,805	298
Other (varying rates of interest)	52,900	42,365
	185,637	173,493
Less: Current portion of debenture payable	9,900	—
Current portion of mortgages payable	3,200	2,700
	13,100	2,700
	$ 172,537	$ 170,793

7. **Deferred Income**

This balance represents unearned bonuses on mortgages and agreements receivable. The company follows the policy of bringing these bonuses into income in proportion to the principal payments received during each period.

8. **Deferred Income Taxes**

In the current year the company has claimed for income tax purposes, a special mortgage reserve as permitted under the Income Tax Act. This resulted in deferred income taxes of $3,367 which have been recorded in the accounts.

9. **Sale of Subsidiary Company**

At an Extraordinary General Meeting of Shareholders on May 17, 1971, the shareholders ratified an agreement to sell Austin Investment Corporation Limited's 85% equity in A. E. Austin & Co. Ltd. for $127,500 cash. Austin Investment Corporation Limited is also to receive a fee of $1,000 per month for thirty-six months from April 1, 1971 for the services of its managing director, and is to be provided with office facilities during the same period. Should the accumulated after-tax profits of A. E. Austin & Co. Ltd. exceed $150,000 during the six year period from April 1, 1971 to March 31, 1977, Austin Investment Corporation Limited will receive further proceeds from the sale equal to 42½% of such excess.

The net gain on this sale amounted to $35,624, calculated as follows:

Proceeds		$ 127,500
Less: Cost of shares	$ 27,769	
Earnings of A. E. Austin & Co. Ltd. included in consolidated income in prior years	43,790	
Share of A. E. Austin & Co. Ltd. income for the six months ended March 31, 1971	1,580	
Paid on lawsuits (see below)	18,537	
Stock Exchange fee	200	91,876
Net Gain on Sale		$ 35,624

Included in this gain is $19,487 from the sale of a lease, shown on the March 31, 1971 interim consolidated statements.

Austin Investment Corporation Limited indemnified the purchaser for 85% of any damages or costs from lawsuits arising from the transactions of A. E. Austin & Co. Ltd. prior to March 31, 1971. Austin Investment Corporation Limited has paid out $18,537 to date under this indemnification. The company is now commencing actions against the insurance carriers for A. E. Austin & Co. Ltd. and other defendants in the hope of recovering most of this amount (see Note 12).

10. **Adjustment to Prior Year's Income Taxes**

An adjustment to the portion of Austin Investment Croporation Limited's income subject to the low rate of tax at September 30, 1970 resulted in an additional tax liability in that year of $3,084.

11. **Employment Contract**

In January 1966, the company entered into a 10 year employment agreement with its managing director, Mr. R. R. Hunter, providing for a minimum salary to him of 10% of the net income of Austin Investment Corporation Limited before income taxes.

12. **Contingent Liabilities**

The company is also contingently liable as guarantor of the bank loans of Bellvan Pizza Parlors Ltd. and its subsidiaries, to the extent of $101,000 to the Royal Bank of Canada and $75,000 to the Industrial Development Bank. Austin Investment Corporation Limited has also assigned $79,000 of their shareholders' advance with Bellvan Pizza Parlors Ltd. to the Industrial Development Bank until the loan is paid.

The company is also contingently liable on all lawsuits against A. E. Austin & Co. Ltd. arising from transactions prior to March 31, 1971. At the year end there were several of these lawsuits in progress representing estimated possible claims not exceeding $13,000 and estimated legal fees of $3,000. If these amounts are not covered by A. E. Austin & Co. Ltd.'s insurance, Austin Investment Corporation Limited will be liable for 85%.

AUDITORS' REPORT

To the Shareholders,
Austin Investment Corporation Limited and Subsidiary Companies

We have examined the consolidated balance sheet of Austin Investment Corporation Limited and subsidiary companies as at September 30, 1971, and the consolidated statements of retained earnings, income, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported upon the financial statements for the preceding year.

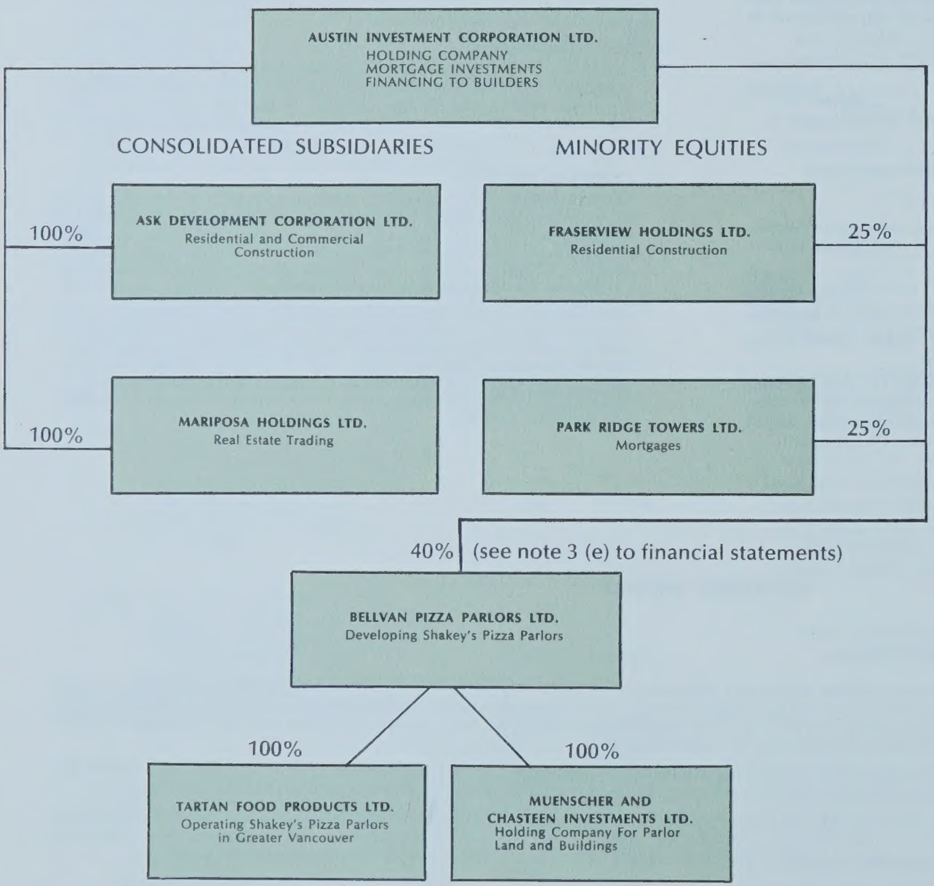
A portion of the net earnings of non-subsidiary companies, amounting to $15,529 at September 30, 1971 (or $.015 per share) has been included in the consolidated net income and in the earnings per share figure for the year, which is not in accordance with generally accepted accounting principles.

In our opinion, except for the inclusion of income from the non-subsidiary companies, as set out in the preceding paragraph, these financial statements present fairly the financial position of the company as at September 30, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 12, 1972.

YOUNG, PEERS, MILNER & CO.,
Chartered Accountants.

THE AUSTIN GROUP CORPORATE STRUCTURE



DIRECTORS AND OFFICERS

RONALD R. HUNTER,
Managing Director

ROWAT S. HUNTER,
President

WILFRED T. MOONEY,
Vice-President

ROBERT L. SAUNDERS,
Treasurer

HARRY T. WELLS,
Secretary

G. DOUGLAS MacDONALD

HARVEY A. McDIARMID

REGISTRAR AND TRANSFER AGENTS

NATIONAL TRUST COMPANY,
Vancouver

AUDITORS

YOUNG, PEERS, MILNER & CO.
Chartered Accountants, Vancouver

SOLICITORS

DuMOULIN, BLACK, BRAZIER & HALL,
Vancouver

KINCAID, EPSTEIN & COMPANY,
Vancouver

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